BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2000

DOCKET NO. R2000-1

INITIAL BRIEF

OF

STAMPS.COM

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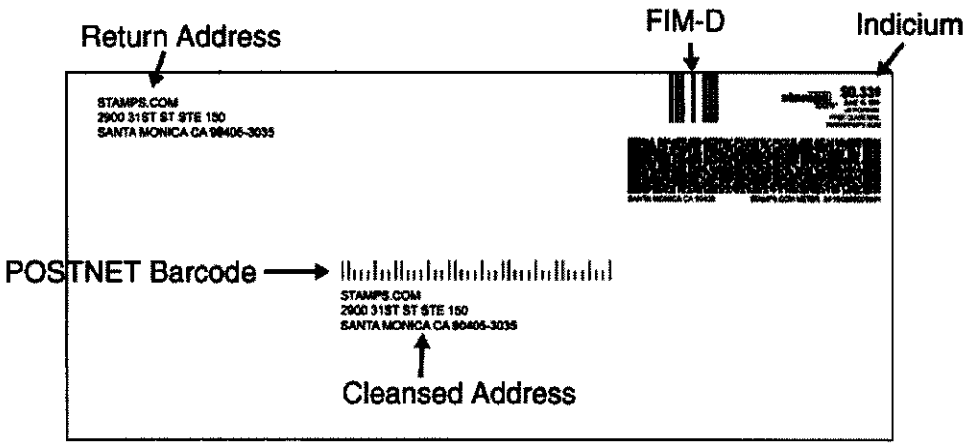
Question Presented

This envelope is produced by PC Postage. The address is verified and cleansed by CASS-certified software. The mailpiece is fully automation compatible. The mailpiece contains a pre-applied 11-digit POSTNET barcode and a FIM code. The mailpiece is essentially identical to a QBRM envelope, which receives a 3-cent discount.



Should mailpieces like this produced by PC Postage be given a discount on First Class mail rates?

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WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000	:	**Docket No. R2000-1**

STAMPS.COM'S INITIAL BRIEF

Overview

Since the last omnibus rate case, a new type of postage – "PC Postage" – has been introduced by the Postal Service. PC Postage is instantly recognizable by its Information Based Indicia (IBI) postage indicia, which appears only on mailpieces produced by PC Postage. PC Postage open system mailpieces contain verified and cleansed addresses, 11-digit POSTNET barcodes, and FIM codes. By using PC Postage, individuals and small businesses generate automation-compatible mailpieces that meet and exceed the address quality produced by even the largest high-volume mailer. The address-cleansing and formatting requirements of PC Postage now make it possible for single-piece mailers to directly share in the benefits of postal automation.

Stamps.com and E-Stamp propose a 4-cent discount from First Class mail rates for envelopes produced by PC Postage open system users. In addition, Stamps.com

proposes a 3-cent discount from First Class mail rates for PC Postage open system mailpieces that contain the address and postage on specially marked flourescent labels that are attached to envelopes.

I. PC Postage Produces Automation-Compatible Mailpieces.

PC Postage is a new form of postage that allows postal customers to purchase postage on the Internet and print it directly from their own personal computers. On August 9, 1999, the Postal Service approved both Stamps.com and E-Stamp for full commercial launch of this service. (Kuhr, Tr. 23/10302.) Neopost, Inc. and Pitney Bowes, Inc. have also received approval to provide this service. The postage indicia produced by this service is a two-dimensional barcode called the Information Based Indicia (IBI). The IBI conveys mail processing and security related data in 19 separate fields. The IBI indicia contains much more information than a traditional meter strip and provides an information platform that can be extended beyond current data specifications. (Kuhr, Tr. 23/10311-12.)

The PC Postage program is the first new form of postage approved since 1920 and was designed by the Postal Service to be the most cost efficient and secure method of postage evidencing in the Service's history. (Jones, Tr. 29/13643, 13645.) The system was designed to eliminate fraud that had been prevalent with traditional meters. (Jones, Tr. 29/13644.)

There are two types of PC Postage: open system and closed system. The closed system is essentially an updated postage meter that allows the user to add postage through the Internet, and requires that special printing hardware be attached to

the user's computer. No address checking or verification is required, addresses are not verified or modified, and the resulting mailpieces are not required to meet any of USPS's automation compatibility standards. Neither Stamps.com nor E-Stamp seeks a discount for closed system PC Postage.[1]

Open system PC Postage, offered by Stamps.com and E-Stamp (among others), is much different. Open system requires that each address be checked and cleansed against USPS's address database, and requires that each mailpiece produced meet USPS automation standards. (Kuhr, Tr. 23/10321-22.) Thus, mailpieces produced by the open system must contain a ZIP+4 Code, a pre-applied 11-digit POSTNET barcode, and a FIM code. Because mailpieces produced by PC Postage open system are required to contain automation-compatible addresses, Stamps.com seeks a discount based on the processing and delivery cost savings achieved through its use. Stamps.com seeks a 4 cent discount for addresses printed directly on a First Class envelope and a 3 cent discount for addresses printed on a label applied to a First Class envelope.

Both E-Stamp and Stamps.com provide open system IBI solutions. Open systems require user intervention in address matching, verification, and cleansing, and they produce a printed address that contains the correct ZIP+4 Code, an 11-digit POSTNET barcode, and a FIM code (or fluorescent striped label). (Kuhr, Tr. 23/10304, 10310, Fig. 4.) Open system solutions must follow the Postal Service's Performance

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[1] Pitney Bowes seeks a discount for postage produced by any type of postage meter, including traditional meters and both open and closed system PC Postage.

Criteria for Information-Based Indicia and Security Architecture for Open IBI Postage Evidencing Systems (PCIBI-O). (Kuhr, Tr. 23/10301-02.) We seek a discount only for mailpieces produced by open systems.[2]

Currently, there are two different approaches to purchasing and downloading PC Postage. E-Stamp employs a Postal Security Device (PSD) that attaches to the customer's computer and to which postage is downloaded and stored. (Jones, Tr. 29/13644.) Stamps.com employs a software-only solution that allows postage to be stored off-site and applied while the user is on-line. (Kuhr, Tr. 23/10302.) Both services require users to perform address cleansing and print addresses with pre-applied barcodes and FIM codes.

All open system PC Postage vendors must go through rigorous system testing before receiving approval from the Postal Service to offer their service commercially. Stamps.com underwent three separate beta tests, and USPS auditing for accountability, over the course of three years before receiving full commercial approval from the Postal Service. (Kuhr, Tr. 23/10302.) E-Stamp also underwent lengthy and rigorous beta testing by the Postal Service before receiving approval. (Jones, Tr. 29/13644.)

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[2] All further references to PC Postage in this brief refer to open system PC Postage.

A. Mailpieces Produced by PC Postage Users Are Required by USPS Regulations to Meet Automation-Compatible Standards.

Each mailpiece produced by a PC Postage user is required by USPS regulations to meet or exceed the quality, accuracy, and currency standards of automation compatible mail. PC Postage software can and does unflinchingly enforce this requirement. The software would not be approved by USPS unless this were so.[3] The result is the production of high quality addresses and mailpieces that meet USPS automation compatibility standards.

Before a customer may even begin to use the service, the customer must first complete and pass a printer registration process to ensure proper printer configuration and media output while printing the address and postage. (Kuhr, Tr. 23/10306-07.) For example, the customer must successfully pass the Print Alignment test, in which a sample test envelope is printed. The customer must print out a separate Quality Assurance Envelope at commencement of service and again every 180 days thereafter. (Kuhr, Tr. 23/10309, 10327-28.) If the customer's printer does not pass this test, the customer is not permitted to use the PC Postage service.

After the customer passes the printer registration test, and receives approval for its meter license application, the customer may begin to use PC Postage. Each time the customer wishes to print out a mailpiece, the intended recipient's address must first be verified and corrected against a Coding Accuracy Support System (CASS) certified address database. The software simply will not allow a customer to print out the

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[3] A recent USPS change to PC Postage specifications allows the user, in limited circumstances, to override the address matching requirement. (Gordon, 45/20017.) Even in these instances, the user must still apply a FIM code and POSTNET barcode to the envelope. We do not seek a discount for overrides.

mailpiece until the address has been verified and corrected. Even addresses that have been previously entered and checked against the database must be checked again if a more current address database is available.

The address verification, matching, and cleansing process is described in detail by witness Kuhr. The customer enters the address, and the system software compares the address to USPS's Address Matching System (AMS) database. This ensures that PC Postage contains the correct ZIP Code and 11-digit POSTNET barcode for each address. If there is a single address match, but changes are still required to meet USPS addressing standards, the software automatically modifies the address. The customer must then accept the address as modified or the mailpiece will not be printed out. Frequently, however, there are many potential matches, and the customer must choose the best match and then accept the modified address produced by the software. (Kuhr, Tr. 23/10317-321; Jones, Tr.29/13647.)

When the mailpiece is printed out, it must contain a ZIP+4 code, a pre-applied 11-digit POSTNET barcode, a FIM code, and the IBI indicia. (Kuhr, Tr. 23/10310-13; Jones, Tr. 29/13645.) The software also directs the placement and format of the delivery address so that it meets the standards set out in USPS Publication 25, *Designing Letter Mail*. The resulting mailpiece is fully automation compatible.

Not only does PC Postage create automation compatible mail, but the special IBI indicia is both highly secure and contains many pieces of information not available through a traditional meter. The indicia includes data for 19 separate information fields, including the destination delivery point. (Kuhr, Tr. 23/10312.) PC Postage thus serves as an important part of the Postal Service's planned information technology platform.

B. PC Postage Users Produce Mailpieces that Meet or Exceed the Same Automation Compatibility Requirements of All First Class Discount Categories.

PC Postage users produce mailpieces that meet or exceed the addressing requirements of other discounted categories of First Class mail. The only requirement that PC Postage normally does not meet is the minimum volume entry requirement. However, there are currently in existence at least two categories of discounts for single piece automation-compatible First Class mail: QBRM and CEM. PC Postage is closely analogous to each of these discount categories. PC Postage also avoids the concerns voiced by USPS concerning a CEM discount.

1. PC Postage mailpieces are essentially identical to QBRM mailpieces, except that QBRM mailpieces receive a 3 cent discount.

An envelope produced by PC Postage is almost indistinguishable from a Qualified Business Reply Mail (QBRM) envelope. They both bear USPS approved and cleansed addresses. They both contain pre-applied 11-digit POSTNET barcodes, and FIM codes. And they both enter the system as single-piece mail. The only difference is that, currently, QBRM bears a FIM C code and PC Postage bears a FIM D code. In beta testing, even this difference did not exist: both QBRM and PC Postage contained the same FIM C code. (Gordon, Tr. 45/20036.)

Recognizing that this type of mail reduces USPS mail processing costs, the Postal Service proposed QBRM as a new rate category in R97-1. The Postal Service proposed a 3 cent discount below First Class mail levels based on mail processing

savings of over 4 cents per piece. Separate fees were proposed to cover the administration of the counting and payment of postage. The Commission adopted the USPS's request. Similarly, in R2000-1, the Postal Service has again proposed that the Commission recommend a 3 cent discount for the QBRM postage rate.

2. The cost savings benchmark used for QBRM applies equally to PC Postage.

To calculate the mail processing cost savings attributable to QBRM, the Postal Service uses the benchmark of handwritten mail. Thus, the QBRM discount is based on the difference between processing a pre-approved, pre-barcoded reply mail piece and a handwritten reply mail piece. (Miller, Tr. 45/19881.) The Postal Service appropriately uses this benchmark even though if QBRM were not available, a handwritten mailpiece would not actually be produced. Stamps.com similarly has used the benchmark of handwritten mail to determine the cost savings attributable to PC Postage.

Is handwritten mail the appropriate benchmark to apply to QBRM and PC Postage? Yes, for three reasons.

First, there is precedent for it. Both USPS and the Commission employed a handwritten benchmark to determine QBRM cost savings. (Fronk, Tr. 12/4931.) This was the correct benchmark to apply, but it must be recognized that it is a necessary fiction. It can safely be assumed that if QBRM did not exist, such mail would not actually revert to "handwritten addresses." (Fronk, Tr. 12/4933-34; Heselton, AR 23/10505.) Such mail would revert to machine-printed courtesy reply mail. (Fronk, Tr.

12/4934; Heselton 23/10537.) Indeed, the Postal Service did not even bother to conduct any studies to determine the appropriate benchmark for QBRM. (See Fronk, Tr. 12/4932; Campbell, Tr. 45/19887.) That is because the selection of a benchmark is not defined by how the mail is being prepared currently, but by what the mailpiece would look like in the absence of all preparation requirements, taken together, that must be met to obtain the proposed discount. (Heselton, Tr. 23/10501, 10536.) In the absence of the addressing requirements that apply to both QBRM and PC Postage, the resulting mailpiece would be a handwritten address. Note that for PC Postage, unlike QBRM, the benchmark is not merely a necessary fiction. It also has a solid basis in fact. It is estimated that about one-third to 50 percent of mail that converts to PC Postage would have had a handwritten address. (Heselton, Tr. 23/10499, 10528 - 530.)

PC Postage and QBRM are both single piece entry mail which contain pre-approved POSTNET barcodes and FIM codes. They thus should both avoid the same mail processing costs.[4] If the proper benchmark to determine PC Postage cost savings is *not* handwritten mail, then the proper benchmark to determine QBRM savings similarly *cannot* be handwritten mail.

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[4] We address in section II(C)(5) of this brief USPS's contention that it is not capturing the same level of savings from PC Postage because it processes FIM C and FIM D mail differently. It has not been clearly established that USPS is indeed processing these two types of mail differently. But even if it were, it is undisputed that at one time PC Postage and QBRM were processed in the exact same way, because both had the exact same FIM C codes. And nothing stops USPS from processing PC Postage in exactly the same way that it processes QBRM.

Second, and the main source of the confusion, is that the term "handwritten address" is really a misnomer. The key factor is not so much whether the mailpiece is typed or handwritten, but whether it contains a pre-applied POSTNET barcode and FIM code. (Heselton, AR 23/10459, 10516.) When these features are added to an envelope, the Postal Service's automated processing and sorting equipment is able to identify and cull out the mailpiece, bypassing a trip to MLOCRs, RCRs, and RBCSs. These pieces instead proceed directly to barcode sorters. This is a substantial cost savings to USPS. (See Miller Tr. 45/19894.) Just like handwritten mail, even the best quality machine-printed envelopes must take a trip to the MLOCR, RCR, or possibly even the RBCS. Because they do not bear a FIM code, they cannot proceed directly to barcode sorters. Thus, the use of the term "handwritten address" is essentially a stand-in for *any* type of address that does not bear a FIM code and POSTNET barcode.

Third, the use of a handwritten address benchmark for PC Postage is appropriate to maximize the benefit USPS gains from the adoption of PC Postage technology. As USPS has itself recognized, PC Postage does not just benefit the user, it also brings substantial benefits to the Postal Service:

> PC Postage products provide time savings, increased efficiency, reduced costs, and enhanced security *for both customers and the Postal Service.*
>
> PC Postage is targeted toward the fast-growing small offices and home office (SOHO) business market and we want them to use our services. The SOHO market is computer-savvy and demands convenience. If we can make it easier for them to get postage, . . . they will be more likely to use the Postal Service than one of our competitors for their delivery needs.

(Postal Bulletin 22004, p. 9 (8-12-99), emphasis added; confirmed by Gordon, Tr. 45/20027.) USPS thus benefits in time savings, cost savings, efficiency, and security from the use of PC Postage. Lawton's survey confirms that when individuals or businesses convert to PC Postage, they increase their use of postal services (particularly Express Mail and Priority Mail). They do so while making fewer trips overall to the post office. Indeed, as of March 31, 2000, Stamps.com's customers alone made an estimated 1 million fewer trips to the post office per month! (Lawton, Tr. 23/10367 - 10371.) With window service costing the Postal Service 46 cents per visit (Miller, Tr. 45/19871-72), that's a savings of nearly $500,000 per month just from Stamps.com's base of customers as of March 31, 2000.

Certainly, some customers will use PC Postage even if no postage discount is offered. Mr. Gordon has testified that for USPS FY 2000 (through Accounting Period 11), there are 321,000 PC Postage customers who have generated $29.8 million in postage revenue. (Gordon, Tr. 45/20013.) But this is a far cry from the number of postal patrons who are interested in PC Postage and are potential users. Witness Boggs estimates interest in, and potential use of, PC Postage for USPS FY 2000 at more than ten times the amount of actual use for the same period. (Compare Boggs, Tr. 29/13849 with Gordon, Tr. 45/20013.) A discount for First Class mail would certainly foster more rapid growth than presently being experienced, when there is no such discount. (Boggs, Tr. 29/13883 - 84.)

Thus, it is appropriate to select a benchmark which produces a level of discount that would motivate mailers to undertake the preparations required by PC Postage. (Heselton, Tr. 23/10539.) Too small a discount will not maximize the overall benefits of

PC Postage. (Id., Tr. 10540.) Nonetheless, the 4 cent discount proposed by Heselton is revenue neutral and will not de-average rates. (Heselton, Tr. 23/10480, 10510 - 13,10521 - 22.) This means that there is no need to raise other rates in order to grant the requested discounts. The primary reason that the discount will not raise or de-average rates is that the rates proposed by the Postal Service do not consider the efficiencies and cost savings related to PC Postage. (Fronk, Tr. 12/4739; Prescott, 29/13756, ln. 4-5.) Since these cost savings have not been relied upon in USPS's cost projections, providing a discount for PC Postage use will not de-average rates or increase the rates of any other class of mail.

3. PC Postage mailpieces are essentially identical to mailpieces that would qualify for a CEM discounted rate.

A discount for Courtesy Envelope Mail (CEM) was proposed and adopted by the Commission in R97-1. CEM mailpieces closely resemble QBRM and PC Postage mailpieces. They are all single-piece entry First Class mail, and all have pre-applied POSTNET barcodes, FIM codes, and approved addresses. CEM differs from QBRM in that the postage is paid by the mailpiece sender as opposed to the mailpiece recipient. Because of these similarities, the CEM discount was based on the same cost savings established for QBRM mailpieces.

While CEM is a well-intended proposal, it has never been adopted by the USPS Board of Governors, and is again opposed by USPS. The Postal Service opposes the discount primarily because of concerns posed by a "two-stamp" system for First Class mail. The proposed PC Postage discount, however, provides the same benefits as

CEM, but without any of the potential problems generated by a two-stamp system. Like CEM, the postage discount goes directly to a single-piece mailer who places postage on the mailpiece. This allows individuals to share directly in the benefits of postal automation. (Fronk, Tr. 12/4930.) In the CEM proposal, the individual obtains the discount by applying a special CEM-rated stamp. This is what generates USPS's "two-stamp" system fears. In PC Postage, however, no stamps are ever used. So the discount can be obtained by an individual mailer without any of the "two-stamp" concerns.

4. If a discount is adopted for QBRM and CEM, then a discount should also be provided for PC Postage.

If the Commission approves and adopts discounts for QBRM and CEM, then it follows that a discount should also be adopted for PC Postage. All three categories of mail require the application of cleansed and verified addresses, up-to-date ZIP+4 Codes, up-to-date POSTNET barcodes, and FIM codes.

5. Requiring address cleansing at full First Class mail rates is a disliked feature of PC Postage and will retard greater use of this new technology.

While the address cleansing and mailpiece printing requirements of PC Postage produces a high quality fully-automatible mailpiece, no discount is currently offered to the customer for taking these actions. Thus, witness Jones notes, it is one of the most disliked features of the PC Postage open system and is a major barrier to customer acceptance. (Jones, Tr. 29/13646; Kuhr, Tr. 23/10317; Heselton, Tr. 23/10493.) It is not surprising that customers object to the address cleansing requirement of open

system PC Postage, because there are no such requirements when they use stamps or traditional meters to apply postage. While the address cleansing features of PC Postage benefit the Postal Service, they do so at the cost of customer convenience. If PC Postage customers received a discount for their work-sharing activities – as do all other mailers who perform the same (or lesser) address cleansing activities – they would at least be rewarded for their efforts.

C. PC Postage substantially improves upon the customer's past addressing practices.

Customers who use PC Postage substantially improve upon their past addressing practices, and also generate more Express Mail and Priority Mail. Based upon an independent survey conducted by witness Leora Lawton, two-thirds of Stamps.com's customers stated that their outgoing mailpieces never or infrequently contained a ZIP+4 Code prior to using PC Postage. When a ZIP+4 Code was used, the customer generally obtained it from an envelope or an old mailing list. (Lawton, Tr. 23/10372-73.) So even the minority of customers who did use ZIP+4 Codes obtained them from sources that were not necessarily current or accurate.

Similarly, prior to using PC Postage, few Stamps.com customers regularly applied a POSTNET barcode to their mail -- about 20 percent. (Lawton, Tr. 23/10374.) And even this low figure is very likely over-stated. Many of those customers who said they had applied POSTNET barcodes in the past to their mail must have believed they were being asked about their current mailing practices. Lawton deduces this because when these customers were asked what software they used to apply barcodes to their

mail, the first and second most popular answer was Stamps.com itself! Since they could not have used Stamps.com before they became Stamps.com customers, they must have mistakenly thought this set of questions concerned their current – not past – addressing practices. Thus, the 20 percent figure of past barcode use is very likely an over-reporting. (Lawton, Tr. 23/10374-5.)

To the extent customers did apply POSTNET barcodes to their mail before using Stamps.com, such practice probably increased USPS's costs. That's because nearly all the survey respondents stated that they used a word processing program (Word or Word Perfect) to generate the barcode. The Postal Service has conceded that it knows of no word processing program that produces CASS-certified POSTNET barcodes. (See Stamps.com/USPS - 1- 6, admitted into evidence on August 31, 2000.) Indeed, word processing programs generally produce 9-digit barcodes. If such barcodes are placed on the lower right-hand side of the envelope, USPS must run the envelope through a LMLM machine to cover up the barcode with a label. Then USPS must re-enter the mailpiece into its processing stream for application of a new POSTNET barcode.

Use of PC Postage also greatly reduces window service stamp transactions. The overwhelming majority of Stamps.com users, 84 percent, stated that their use of PC Postage reduced the number of trips they make to the post office -- on average about 4.5 fewer trips per month. That amounts to roughly one million fewer visits to post office windows each month from Stamps.com's existing base of 187,000 customers as of March 31, 2000. (Lawton, Tr. 23/10368-70, 10376.) As of AP 11,

there were nearly 321,000 total PC Postage users. (Gordon, Tr. 45/20013.) With each reduced window service stamp transaction saving USPS 46 cents (Miller, Tr. 45/19871-72), with PC Postage users make 4.5 fewer trips per month, and with the base of PC Postage users continuing to grow, USPS is today close to saving $1 million per month. This figure will continue to grow as the number of users grow.

PC Postage also benefitted the Postal Service by increasing customer awareness and use of Express Mail and Priority Mail. Over half of PC Postage customers gained greater awareness of these USPS products through their use of PC Postage. Nearly two-thirds stated that PC Postage made it easier for them to use Express Mail and Priority Mail, and one-third had already increased their usage of Express Mail and Priority Mail since using PC Postage. (Lawton, Tr. 23/10370-71.)

It should also be noted that PC Postage users are the users who are most susceptible to leaving the mail system entirely. They are computer-savvy. To use PC Postage, they must have some level of comfort in using their computers and the Internet to generate postage. They are thus the type of postal customer who is most susceptible to finding electronic substitutes for their mailing needs. (See Postal Bulletin 22004, p. 9. (8/12/99).)

II. PC Postage Applied Directly on an Envelope Should Receive a 4 Cent Discount on First Class Mail Rates.

Stamps.com proposes two separate discounts: a 4-cent discount from First Class mail rates for PC Postage produced envelopes and postcards; and a 3-cent

discount for addresses printed by PC Postage on labels that are applied to envelopes or postcards.

A. First Class Mailpieces produced by PC Postage users avoid over 4 cents per piece in processing and delivery costs.

The extensive mail preparation activities undertaken by PC Postage customers results in the Postal Service avoiding substantial costs in processing and delivery such mail. PC Postage customers should thus receive a discount for the cost savings their preparation activities create. Both E-Stamp and Stamps.com have offered expert witnesses testimony on the cost avoidance and savings generated by PC Postage mail and the proposed discount for it. Even though these experts (Prescott and Heselton) use different methodologies to calculate cost avoidance and savings, both experts reach essentially the same conclusion and recommended discount proposal. Both Prescott and Heselton propose a 4 cent discount on First Class letters and postcards with IBI open system postage applied directly to the mailpiece. Heselton proposes a 3 cent discount for First Class letters with IBI open system postage applied to labels.

Frank Heselton proposes a discount of 4 cents for Category 2 mail (First Class open system IBI letters when the address is printed directly on the envelope). Heselton develops these avoided costs by reference to the costs avoided by Qualified Business Reply Mail (QBRM) and the addition of other IBI cost savings. (Heselton, Tr. 23/10458.)

Heselton concludes that it is appropriate to pass along 4 cents of these avoided cost and worksharing savings as a discount to IBI mailers for letter mail upon which the IBI address is printed directly on the mailpiece. Heselton concludes that a 100 percent

pass-through of cost avoidance would be appropriate based on previous pass-through determinations in similar circumstances. (Heselton, Tr. 23/10478-480.)

1. PC Postage addressing to USPS automation standards avoids at least 2.60 cents per piece.

Both QBRM and IBI mail enter the mailstream as single piece mail and both meet the same standards for automated processing. Both IBI mail and QBRM contain accurate addresses, ZIP+4 Codes, 11-digit POSTNET barcodes, and FIM codes. Thus, both IBI mail and QBRM should avoid the same RBCS and incoming processing costs. (Heselton, Tr. 23/10459.) Heselton notes that USPS employs handwritten single-piece letters as the appropriate benchmark for determining QBRM cost avoidance. As discussed earlier, the term "handwritten mail" is really a misnomer. The key aspect is not so much whether the address is handwritten or printed, but whether the mailpiece contains a correct, pre-applied POSTNET barcode and FIM code. (Id.) The Postal Service's discount proposals recognize this. After all, it is very unlikely that any QBRM mailpieces would revert to "handwritten" status if the discount were eliminated.

Witness Campbell presents USPS's testimony on the mail processing cost savings achieved by QBRM. He initially testified that QBRM avoids 3.38 cents per piece using the Postal Service's methodology for measuring attributable costs and 2.99 cents per piece following the methodology used by the Commission in R97-1. In determining IBI cost savings, Heselton used the lower 2.99 cents per piece estimate. (Heselton, Tr. 23/10461.) Since the time Heselton filed his testimony, the QBRM cost

savings calculations have been corrected and updated several times. The QBRM cost savings estimate has ranged from a high of 4.48 cents per piece (USPS LR-I-471 (L) to a recent low estimate of 2.60 cents per piece (USPS LR-I-480 (L)).

To be as conservative as possible, we will rely on the very lowest cost savings estimate used in this proceeding: 2.60 cents per piece.

2. PC Postage address checking and cleansing requirements avoids 1.14 cents per piece in return-to-sender cost.

In addition to these savings, IBI mail also reduces USPS costs by reducing the amount of return-to-sender mail generated by address deficiencies. These savings are not included in Campbell's estimate of QBRM costs savings. (Heselton, Tr. 23/10461; Campbell, Tr. 14/6064.) Heselton notes that all IBI mail must go through address cleansing, which frequently corrects deficiencies in the delivery line of an address. Delivery line address deficiencies can lead USPS to incur two additional types of cost: (1) the cost incurred by additional carrier time and effort expended in determining the correct address for, and delivering, a mis-addressed mailpiece; and (2) the cost incurred in returning such mail to the sender if it cannot be delivered as addressed. (Heselton, Tr. 23/10463.)

Heselton calculates the cost savings attributable to reduced return-to-sender mail by relying on two USPS sponsored Library References on undeliverable-as-addressed mail: USPS-LR-I-192 and USPS-LR-I-82. (Heselton, Tr. 23/10464-65.) Based on these studies, Heselton determines that IBI mail's address cleansing feature avoids an additional 1.71 cents of cost from reduced return-to-sender mail. To maintain his conservative approach, and as a contingency for possibly overstated return-to-

sender costs in USPS's own study, he reduces this amount by one-third, arriving at an additional cost savings of 1.14 per piece. (Heselton, Tr. 23/10464-69.) Heselton's testimony on these cost savings from reduced return-to-sender mail is unrebutted by the Postal Service's rebuttal witnesses. (Miller, Tr. 45/19891.)

3. PC Postage address checking and cleansing additionally avoids several tenths of cent in delivery costs.

So far, we have established that PC Postage produces at least 3.74 cents of cost savings: 2.60 cents in mail processing costs and 1.14 cents in reduced return-to-sender costs. In addition to these savings, Heselton testified that the correction of delivery line deficiencies and omissions also saves a substantial amount of carrier time and effort that would otherwise be spent resolving address line deficiencies. (Heselton, Tr. 23/10469.) The Postal Service's Address Deficiency Study found that letter carriers often use great effort to deliver mail in the face of address deficiencies that render the mailpiece difficult to deliver. Id. Indeed, most address line deficiencies can be resolved by the letter carrier and thus need not be returned to sender. Given the prevalence of these types of address error, Heselton determined that the cost avoided by the perfect addresses of PC Postage would be significant. He expected that these efforts would save an average of at least several tenths of a cent per piece. (Heselton, Tr. 23/10471.)

Heselton did not include this several tenths savings in his total PC Postage cost savings calculations. This made his proposal particularly conservative. (Id.) He also judgmentally reduced his calculated return-to-sender savings of 1.71 cents per piece by one-third to 1.14 cents per piece in order to keep his proposal conservative. If either of

these two estimated costs savings are restored to the PC Postage calculated savings, the amount will once again exceed 4 cents per piece – even when the lowest QBRM cost savings amount (2.60 cents per piece) submitted in this proceeding is used.

Stamps.com's discount proposal is conservative. No amount is included for savings in reduced window service stamp transactions, which Lawton estimated at 1 million less visits per month for Stamps.com users alone. These savings are valued by USPS at 46 cents for each window transaction. (Miller, Tr. 45/19872-74.) Stamps.com's discount proposal also does not include any amount for the savings achieved by the higher security features of PC Postage, which practically eliminates the possibility of meter fraud. Indeed, USPS witness Gordon notes that the IBIP indicia used by PC Postage is primarily related to revenue security. (Tr. 45/20011-12.) Stamps.com's discount proposal also does not include any amount for the increased revenue USPS gains from greater customer use of Priority Mail and Express Mail. One-third of all PC Postage customers say they have increased their usage of Priority Mail and Express Mail based on their use of PC Postage. (Lawton, Tr. 23/10371.) Also, no amount is included in Stamps.com's discount proposal for any savings due to a reduced need to procure, deliver, and account for stamps distributed to post offices.

B. The cost avoidance results directly from work-sharing that is required to be performed by PC Postage users.

It is important to note that the cost avoidance achieved by PC Postage is based on work-sharing activities performed by the mailer. This proposed discount is thus in line with every other existing discount for First Class mail, which is based on cost avoidance achieved by mail preparation activities taken on by the mailer. Before PC

Postage, only large and sophisticated mailers could perform these work-sharing activities. With PC Postage, individuals and small businesses can easily produce high quality, automation compatible mailpieces.

C. The arguments against a discount are highly speculative, unsupported by facts or studies, and trivial at best.

In response to the proposed PC Postage discounts, the Postal Service has unleashed various objections. Upon examination, none are justified.

1. The argument that mailers will pay for 1 ounce but will actually send a mail piece weighing over 1 ounce.

A frequent objection made by USPS is that, because a postal scale is not required, some mailers will apply 1 ounce worth of postage for a mailpiece that weighs over 1 ounce. These mailers should not be getting a discount, the argument goes, when their mailpiece is overweight. We certainly agree with that. But in this scenario, an inappropriate 4-cent PC Postage discount would be the least of USPS's problems. It is dwarfed by the loss of 22 cents for the second ounce of postage. Whether the overweight mailpiece bears a PC Postage discount, or a 1-ounce stamp, is a secondary concern.

The actual likelihood of this occurring is so speculative and remote that it doesn't affect PC Postage cost savings. Witness Campbell testifies that the short paid percentage for all First Class Mail single-piece letters in FY 1999 was 1.13%. (Campbell, Tr. 45/19813.) This was in a rate change year, when there were 240 million pieces short-paid by 1 penny. (Campbell, Tr. 45/19872.) There would never be a short

payment attributable to the use of pre-rate change postage from a PC Postage user. The software automatically applies new rates. In FY 1998, when there were no such rate changes, the short paid percentage for First Class Mail single-piece letters was 0.65%. And according to the OCA, postal customers are more likely to over-pay than under-pay postage. So the over-payers probably outweigh the under-payers.

Moreover, there is no evidence or reason to think that PC Postage customers would short-pay their envelopes to a greater degree than other customers. In the event a PC Postage user did short-pay an envelope, and in the event it was not detected by the Postal Service, USPS is *still* 4-cents better off. That's because the PC Postage address cleansing and processing still saves USPS on mail processing costs -- even at extra ounce levels.

2. The argument that a mailer's printer will produce unreadable addresses and barcodes.

The Postal Service next contends that mailers will produce unreadable addresses and barcodes. USPS concedes this is speculation only and has no support for this contention. (Campbell, Tr.14/6066, (b).) The objection is not justified. Mailers will overwhelmingly produce readable addresses and barcodes. First, mailers must pass a string of printer registration, alignment, and verification tests to be permitted to use the service. Then, the mailer is required to send in a QA envelope, which is evaluated for compliance with USPS specifications. (Kuhr, Tr. 23/10306-09.) Ever since the full-scale commercial launch of PC Postage, customer non-compliance with printer specifications has never been an issue. (Kuhr, Tr. 23/10350.)

3. The argument that mailers will use PC Postage instead of courtesy reply envelopes.

At one time, the Postal Service argued that PC Postage would be used by mailers on courtesy reply envelopes. This would be bad, the argument goes, because the CRM envelope may have special markings or routings which would not appear on the return piece prepared by the PC Postage user. This contention ignores the reality of mailpiece preparation. When a person has received a mailing and has been presented with a CRM, that person is invariably going to use the CRM for any reply. It's just too convenient not to do so. All that the person must do to reply is place a stamp on the CRM. It be strange indeed for that individual to throw away the CRM, find and use a personally owned envelope, boot up the computer, access the program, submit the address, and print the address -- all to save 4 cents. That would likely be a very rare occurrence.

While a CRM recipient would not likely generate a PC Postage mailpiece to save 4 cents on postage, the situation is very much different when an individual or small business is confronted with producing an outgoing mailpiece. When no mailpiece is already provided and one must be created, a 4-cent discount is a strong incentive to use PC Postage.

4. The argument that most QBRM is sent to a PO box, avoiding delivery costs.

It is argued that since most QBRM is sent to a Post Office box, QBRM avoids substantial delivery costs. While it has never been a requirement that QBRM be

addressed to a PO box, we will assume arguendo that the majority of QBRM mailpieces go to a PO box. These QBRM pieces thus avoid delivery cost. But no participant in this proceeding has requested that QBRM be restricted to PO boxes, or that the QBRM discount be increased based on this cost avoidance. The QBRM discount has always been based solely on reduced mail processing costs.

This makes complete sense, because prior to QBRM the mail that converted to QBRM similarly avoided delivery costs if it had ben addressed to a PO box. Even handwritten addresses save USPS on delivery costs if the delivery is made to a PO box. So the creation of QBRM did not result in any additional savings to USPS for reduced delivery costs from the mail that would have converted to QBRM. Thus no discount on that basis was appropriate or requested.

Moreover, if reduced delivery costs for QBRM are taken into consideration, then so should the various non-mail processing cost savings produced by PC Postage. For example, PC Postage results in and increased use of Express Mail and Priority Mail, fewer trips to the post office, less need for stamps, and less meter and postage fraud.

5. The argument that since PC Postage bears a FIM D code and not a FIM C code, USPS does not realize any savings from it.

The Postal Service argues through witness Campbell that USPS does not realize any mail processing cost savings because PC Postage is processed differently than QBRM. The argument goes like this: QBRM bears a FIM C code; PC Postage bears a FIM D code. FIM C mail is routed directly to the barcode sorters; FIM D mail is not. Thus, QBRM (with its FIM C) saves USPS in mail processing costs whereas PC Postage (with its FIM D) does not. The argument is misguided for several reasons.

First, it is not at all clear that PC Postage is in fact being processed differently than QBRM. Campbell concedes that USPS has no uniform mail processing standards, and he did not talk to any USPS plant managers to determine how they were in fact processing PC Postage. (Campbell, Tr. 45/19888-890.)

Second, USPS has offered no rationale justification for processing FIM C mail (QBRM) differently than FIM D mail (PC Postage). Literally, with the flick of a switch or the push of a button on the AFCS, a USPS plant manager could process PC Postage mail as FIM C. There is no need to send FIM D mail to the MLOCR, because such mail has already been pre-barcoded. In fact, during beta testing, PC Postage did bear a FIM C code - exactly the same FIM code as QBRM. (Gordon, Tr. 45/20036.) Witness Miller was not even aware of this fact. (Miller, Tr. 45/19888.)

Witness Miller did steadfastly and courageously argue that even if PC Postage had a FIM C code it would be processed differently than QBRM. But he could not explain why this is so, or why it had to be so. (See Miller, Tr. 45/19879-80.) There is nothing unique about QBRM that would explain PC Postage could not be processed in the same way. The existence of "hold outs" does not explain it. QBRM is not necessarily local mail. It can destinate to anywhere in the country. And there is no evidence that more QBRM would be sent to hold-outs than would PC Postage.

Third, even if it were true that FIM D (PC Postage) is sent to MLOCRs instead of barcode sorters, USPS still benefits from the pre-applied POSTNET barcode. Most MLOCRs can read the barcode and sort the mail. PC Postage thus avoids being sent to the RCR or RBCS, which is the fate of other mail, including a substantial amount of machine-printed mail. (See Miller, Tr. 45/19893-94.)

D. The proposed discount is revenue neutral, so no other rates need be changed to provide the discount.

The PC Postage discount proposals are revenue neutral, so the Commission need not de-average or increase rates in order to recommend the discount. The discount is revenue neutral because USPS concedes that in projecting its test year costs and revenues, it has not taken into account the cost savings achieved through processing IBI indicia mail. (Fronk, Tr. 12/4739.)

III. PC Postage Applied on a Label Attached to a First Class Envelope Should Receive a 3 Cent Discount on First Class Mail Rates.

For addresses which are printed on labels for First Class letter mail, Heselton recommends only a 3 cent discount. He reduces the pass-through of cost savings to make allowances for the possibility of user error in applying the address labels on the mailpiece. (Heselton, Tr. 23/10481.) Proposing a smaller discount for use of labels makes sufficient allowance for contingency that labels will be mis-applied.

Given the possibility of customer error in applying address labels, Heselton makes an additional allowance for uncertainties by proposing a per piece workshare discount of 3 cents for IBIP prepared and addressed letters when the indicium and address are printed on labels to be placed on the envelope. This provides a large margin of protection in the unlikely event that problems arise from improper application of labels. The passthrough of avoided cost to the 3 cent discount is less than 70 percent. (Heselton, Tr. 23/10481.)

IV. Classification, Ratemaking and Policy Considerations Support the Proposed Discounts.

The proposed discounts from the First-Class single-piece letter rate for PC Postage prepared and addressed letters meet the classification, ratemaking and policy requirements of the Act and should be recommended by the Commission.

A. The Proposed Discounts Meet Classification Requirements of the Act.

The proposed discounts could require the establishment of a new rate category in the Domestic Mail Classification Schedule. They are in accord with the classification factors in section 3623(c) of the Act. Section 3623(c)(1) of the Act requires "the establishment and maintenance of a fair and equitable classification system for all mail." Individuals, small businesses, and other small mailers of First Class single-piece letters have not had the options enjoyed by mailers in other categories to obtain lower rates through mail preparation that lowers mail processing or delivery cost. In rate proceedings over the last 25 years, the Postal Service, the Commission, and various consumer advocates have proposed discounted rates for individual mailers. In Docket No. R77-1, the Postal Service proposed a rate for a new subclass of First Class letters, "Citizen's Rate Mail" (CRM). In Docket No. R84-1, the New York State Consumer Protection Board (NYSCPB) proposed another version of CRM and a "holiday" rate for First Class mail deposited between Thanksgiving Day and December 10, but not requiring delivery until December 25. In Docket No. R87-1, the Commission recommended the creation of "Courtesy Envelope Mail" (CEM). In Docket No. R90-1,

the Commission recommended a "Public's Automation Rate" (PAR). In Docket No. R97-1, the Commission once again recommended a CEM rate. All these proposals have presented significant problems; none has been adopted.

All of the proposed discounts have been based on some notion of lower costs incurred by individuals when they mail pieces prepared a certain way, or at certain times, or for other reasons. These proposed discounts would have reduced rates for individuals in a manner that would have increased rates for others. In other words, they "de-averaged" rates. Because one group of mailers would end up paying less while other groups would wind up paying more, de-averaging rates raises issues of fairness and equity.

Also, in some of the proposals, someone other than the mailer was responsible for providing the envelope that generated the cost avoidance for which the discount was proposed. Some participants in the proceedings viewed a discount for the mailer as "unearned," since the beneficiary of the discount had done little or nothing to prepare the automation-compatible features on the envelope that avoided cost. This also raises issues of fairness and equity.

These can be difficult issues to resolve. The Governors and the Commission have approached these issues differently in the same proceedings. In Docket No. R77-1, when the Governors and postal management voted to file a case requesting Citizen's Rate Mail, they presumably regarded it as fair and equitable. The Commission, however, found that the Postal Service's "implementation of CRM as proposed in this proceeding would result in unlawful rate discrimination unfairly favoring household mailers with a lower rate for [F]irst-[C]lass mail users for essentially the same service".

(Opinion and Recommended Decision, p. 183). In Docket No. R97-1, the Commission recommended CEM, noting that consideration of CEM must focus on, among other things, "fairness and equity". (Opinion, p. 322). In their Decision on CEM, the Governors quoted their Decision in MC95-1: "CEM would offer to households the new advantages of de-averaging for their low-cost mail, and the continuing advantages of averaging for their high-cost mail. We are not convinced that such a ratemaking scheme is either fair or equitable." (Decision of the Governors on Prepaid Reply Mail and Courtesy Envelope Mail, p. 7).

The proposed discounts for PC Postage prepared mailpieces do not trigger these concerns. These discounts do not de-average rates. Rather, the proposed PC Postage discounts are offset by the amount of cost avoided by such letters. There is no significant rate impact on other mailers. Even if estimated avoided costs are not fully achieved, allowances in calculations of the cost avoidance and in the passthrough of cost avoidance to the discount ensure that rates for other mailers will not be adversely affected. The recipients of the discounts, furthermore, are those responsible for preparing and addressing the letters that avoid the costs. The discounts, therefore, are earned through the efforts of those receiving them, not by the efforts of others. The proposed discounts fully meet the requirements of section 3623(c)(1).

Section 3623(c)(2) requires consideration of "the relative value to the people of the kinds of mail matter entered into the postal system and the desirability and justification for special classifications and services of mail." Over 25 years ago, a discount category for presorted First Class mail was established "to encourage worksharing and to provide mailers who presort with equitable compensation for the

mail processing costs which presorting saves the Postal Service". (MC73-1 Opinion, p. 17.) In Docket No. R80-1, a second tier of discounts was added for mail presorted to carrier route. In later proceedings, workshare discounts were added for prebarcoding and ZIP+4 preparation, and discounts were extended to flat-shaped mail. Today, except for individuals, small businesses and other small mailers, First Class mailers have a wide variety of workshare categories and related rate discounts they can use. Individuals, small businesses, and other small mailers generally are unable to use these categories to obtain discounts on their mail, because requirements to meet a minimum number of pieces or other constraints limit their ability to prepare letters that qualify for mailing at one of the discounted rates.

The recent availability of PC Postage preparation and addressing procedures for letters, however, provides a viable alternative. Now, individuals, small businesses, and other small mailers have ready access at reasonable cost to tools they need to prepare letters reliably to meet automation and the highest address standards. As indicated in the testimonies of Heselton and Kuhr, they can prepare First Class letters that equal or exceed the address quality attained by the most sophisticated mailers. Letters produced by PC Postage avoid the very same costs of letters prepared by other procedures that produce automation-compatible letters with valid, standard addresses. Like the preparers of those letters, PC Postage users deserve equitable compensation for their efforts through a workshare discount. The desirability of a category for a discount rate for PC Postage prepared and addressed letters, therefore, is very high, and is well justified. A discount category for First Class PC Postage prepared and addressed letters fully meets the requirements of section 3623(c)(2).

Section 3623(c)(5) specifies consideration of "the desirability of special classifications from the point of view of both the user and of the Postal Service." PC Postage prepared and addressed letters permit individuals and smaller mailers, who have not been able to use discount categories before to lower their postage costs. The lower cost benefits the Postal Service by making mail less expensive to use relative to competing media. This increases the attractiveness of mail relative to competing media, and serves to preserve or increase First Class letter volume in the face of increasing alternatives to mail. The creation of the discount category also calls attention to the existence of the IBIP program and its benefits to potential users and the Postal Service.

Witness Boggs indicates that a majority of SOHOs already have the basic equipment needed to use PC Postage, and many are interested in using the program. (Boggs, Tr. 29/13838, 13854.) By the test year, around 75 percent of SOHOs will have Internet access, making them potential PC Postage users. (Boggs, Tr. 29/13838.) SOHOs' interest in PC Postage to prepare their mail partly reflects the fact that postage meters are not cost effective to most SOHOs given the relatively small volume associated with each mailer. (Boggs, Tr. 29/18351). As a group, however, SOHOs account for a significant amount of spending on First Class postage. (Boggs, Tr. 29/13846). A discount for PC Postage-prepared mail could substantially increase SOHO participation in creating more efficiently handled mail pieces.

Individual mailers also would benefit from PC Postage. According to the *Washington Post*, over 50 percent of households will be Internet-connected in the test

year. (*Washington Post*, May 17, 2000, section G, p. 1.) Individuals, therefore, have both the connectivity and the interest to make significant use of PC Postage.

One of the benefits to the Postal Service will be an increase in the percentage of letters prepared for automated mail processing and with valid, standard addresses, both of which will increase processing efficiency and reduce cost. Use of PC Postage by individuals and small mailers also offers an unparalleled method to educate and guide them to prepare mail correctly. Users are exposed to proper mail preparation methodology every time they print postage. This is a much more effective means of obtaining properly prepared and addressed mail than providing information on letter rates and preparation through a web site or literature.

A discount category for PC Postage prepared and addressed letters will further the Postal Service's IBIP goal of making "a range of products available to mailers, thereby meeting different mailer needs." (Tr. 12/4737.) Such a discount will increase the attractiveness of using PC Postage, increasing vendor interest in providing PC Postage products to meet different mailer needs. For example, Stamps.com and E-Stamp offer somewhat different procedures for customers to prepare letters to automation standards and to address them to AMS standards. (Compare Kuhr, Tr. 23/10316-321 and Jones, Tr. 29/ 13644.) But mailings produced by either system generate fully compatible and properly addressed mailpieces, in that both comply with requirements for Open System PC Postage. (Kuhr, Tr. 23/10301-02; Jones, Tr. 29/13644-46.) Because of these factors, a discount category for PC Postage is highly desirable for both the mail user and the Postal Service.

B. The Proposed Discounts Meet Rate Requirements of the Act.

The proposed discounts meet the eight rate-setting criteria in section 3622(b) of the Act. Section 3622(b)(1) requires fair and equitable rates. The proposed PC Postage discounts meet the classification and rate setting criteria of the Act and are fair and equitable. Sections 3622(b)(2) and (3) are not pertinent. The proposed discounts for PC Postage prepared and addressed letters are workshare discounts that do not alter basic cost and rate relationships addressed by section 3622(b)(3). Criterion (4) relates to the effect of general rate increases on the general public and business mail users. The proposed discounts provide a way for the public and business mailers to lower their postage cost to mitigate the effect of rate increases. It complies with the Act. Criterion (5) concerns the available alternative means of sending and receiving mail matter at reasonable rates. This factor has been applied in the past to hold down rate increases for First Class single-piece letter mailers, because they have few alternatives to mailing a letter. PC Postage users, however, are just the type of computer-savvy mailers who are most likely to use alternative means – such as the Internet and electronic media – to send and receive messages. They have alternatives to using the mail. The proposed discounts comply with this section.

Section 3622(b)(6) requires consideration of "the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to the Postal Service." Under PC Postage preparation and addressing procedures, First Class letters are prepared to meet automation mail processing standards and AMS database standards. The mailer performs the preparation, which

requires some effort. (Kuhr, Tr. 23/10315-324; Jones, Tr. 29/13646.) Printers attached to personal computers are set up to meet a variety of printing needs, and usually require setting up to print envelopes and labels. PC Postage procedures guide the user through this process, requiring the user to indicate the size of envelope or to specify type of label. The user enters the address and the PC Postage provider checks the entered address against the AMS address database. The PC Postage implementing program displays the AMS version of the address and requires a confirmation from the user. Differences between the user-supplied address and the AMS version may require close examination by the user to confirm that the AMS address is, in fact, equivalent to the user-supplied address. In some instances, the AMS system cannot match the entered address, and the user is asked to choose an address from a menu of alternatives. This often requires considerable effort by the user, especially if the basic form of the address has changed, as when a rural-route box-number style of address has gone through a 911 conversion to city-type addressing. This conversion alone changed almost 2 million addresses between 1994 and 1999. (USPS LR-I-192,p.10.) As a result of the mailers efforts, however, a First Class single-piece letter avoids over 4 cents per piece in cost to the Postal Service. Consideration of section 3622(b)(6) requires this avoided cost saving to be reflected in First Class single-piece letters through discounts from the single-piece letter rate.

Section 3622(b)(7) requires consideration of "simplicity of structure for the entire schedule and simple, identifiable relationships between the rates or fees charged the various classes of mail for postal services." The addition of a discount rate for PC Postage prepared and addressed letters adds negligible complexity to the existing rate

schedule. The PC Postage products themselves actually provide letter mailers with tools and flexibility that reduce problems in using the existing rate structure. Unlike the case with some discounts previously proposed for First Class single-piece letters, the mailer doesn't need to keep a second denominated stamp for use on the discounted letter category. In fact, the letter mailer no longer needs to keep stamps denominated for letters weighing more than one ounce, or for nonstandard sized envelopes. The software which prints the address and postage automatically determines whether the discount is applicable, and if so, calculates it. (Kuhr, Tr. 23/10470.)

The First Class single-piece letter mailer probably will receive courtesy-reply envelopes in which to place bill payments, merchandise orders, and for other similar purposes. This presents no problem for the PC Postage letter mailer. Such a mailer will still want to have some stamp stock for First Class single-piece letters that the mailer may not want to prepare through an PC Postage provider. The mailer can use these stamps on reply envelopes.

The proposed discounts for PC Postage-prepared and addressed letters fit well with the rates proposed for the other categories of First Class letters, as shown in the following table:

Rate Category	**Proposed Rate**
Regular Single Piece	34 cents
Regular Presort (not automation compatible)	32 cents
PC Postage (automation compatible, no presort)	30 and 31 cents
Automation Basic Presort Letters	28 cents

For these reasons, discounts for PC Postage prepared and addressed single-piece letters meet the requirements of section 3622(b)(7).

C. The Proposed Discounts Meet the Policies of the Postal Reorganization Act.

With regard to establishing classifications, rates, and fees, the Act specifies in section 403(c): "In providing services and in establishing classifications, rates, and fees under this title, the Postal Service shall not, except as specifically authorized in this title, make any undue or unreasonable discrimination among users of the mails, nor shall it grant any undue or unreasonable preferences to any such user."

For over 25 years, individuals, small businesses and other small mailers of First Class letters have not been able to use the various workshare discounts available to other First Class letter mailers. This situation reflected the inability of individuals and small mailers to prepare letters that met the requirements for the discounts, which were based on sufficient volumes to avoid costs through preformation or other types of preparation that avoided cost. The discount rates were not unduly or unreasonably discriminatory against individuals or small mailers, because they theoretically could use such rates. But practical circumstances prevented their use.

Practical circumstances have changed. Now, individuals, small businesses, and other small mailers can prepare First Class single-piece letters economically to the same or better automation and addressing standards achieved by larger mailers who receive discounts for their efforts. Discounts for PC Postage prepared and addressed mail not only are consistent with section 403(c), but may be required by it, if there is no other reasonable basis for denying the discounts to individuals and small mailers. The

proposed discounts for PC Postage prepared and addressed single-piece letters and cards meet all the applicable classification and rate-setting criteria of the Act. The Commission should recommend them.

Conclusion

PC Postage is new, but the concept of discounts for automation compatible is not. PC Postage produces automation-compatible mail on a par with QBRM, which receives a 3 cent discount. PC Postage's address cleansing requirements ensures addressing accuracy while its address printing requirements (POSTNET barcodes, FIM codes) ensures automation compatibility. These features reduce USPS mail processing costs. PC Postage use also confers other benefits on USPS. PC Postage users make far less trips to the post office, while at the same time increasing their use of USPS's premium products Express and Priority Mail. PC Postage is also the most secure form of postage. And the low cost and easy availability of PC Postage finally makes it feasible for consumers, small businesses, and home offices to directly share in the benefits of postal automation.

We therefore urge the Commission to approve a discount for PC Postage to reflect the cost savings realized from its use, reward mailers for their work-sharing activities, and encourage greater use of this beneficial technology.

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CERTIFICATE OF SERVICE

I hereby certify that I have this 13th day of September 2000, served the foregoing document in accordance with the Commission's Rules of Practice.